

# SCHOOL BUSINESS ALERT

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## PLACES TO GO, THINGS TO SEE ON THE INTERNET

<http://www.asbointl.org>

This is the homepage for the Association of School Business Officials, International.

<http://info.pitt.edu/~aeafa/aeafa-wel.htm>

This is the homepage for the American Education Finance Association. Through this site, you can also get to the National School Board Association's homepage and to the homepage for American Education Research Association.

<http://www.financenet.gov>

This is an incredible resource site for governmental finance. It is huge and will take several visits to identify everything that can be obtained from the site. This site contains homepages/links for GASB (Governmental Accounting Standards Board), GFOA (Government Finance Officers Association), AGA (Association of Government Accountants), and AICPA. Publications by the U.S. Treasury and OMB Circulars are at this site. There are also links to sister networks: budgetnet, auditnet, and grantsnet.

<http://www.state.ia.us/educate/depteduc/elseced/admacrd/>

This will take you directly to the Bureau of School Administration and Accreditation where there are new materials provided by the finance and administration team. To date, information on Bond Elections, Playground Safety, Adaptive Environments, Reorganization Periodic Reports, Certified Enrollment Data, and the SBRC Unofficial Summary are available on the web.

## HIGHPOINTS OF THE SUMMER DATA CONFERENCE

Each summer the National Center for Education Statistics sponsors a conference to share the latest information in federal data collection and current research and issues. Below are highpoints from this past conference.

The Uniform Financial Accounting Manual for State and Local School Systems will be updated between 1998 and 2000 and will be published on the Internet. This update probably will not have much impact on Iowa. The discussion is to consider dimensions to identify buildings and curricular areas. Iowa already has included that information in its chart of accounts in the program and facility dimensions.

The Public School Accounting Handbook will also be updated and published on the Internet. This Handbook is similar to a textbook and it accompanies the Uniform Financial Accounting Manual. This should be a great resource for Iowa schools.

Researchers are consistently finding that within a state, districts tend to be very similar in their allocation of resources whether studied at the function, object, or program level. This similarity is consistent over time. This is the same thing I have found when studying Iowa districts over time. The focus of research is now moving toward greater detail to find those differences. In particular, this year's reported research focused on building level expenditures rather than district. One of the researchers, Robert Berne, has an article published in the August 1995 issue of School Business Affairs (publication of Association of School Business Officials International) on this topic.

A relational database was demonstrated that could be used by local school districts to provide management information in a format or at a level of detail that would be too cumbersome to add to the chart of accounts. The database had cells which were mapped to the chart of

accounts in the accounting records. Once the account was mapped, it would always allocate expenditures in that proportion to the various database cells unless the district chose to remap it. As an example, a district might want to determine the cost of providing K-3 education. To do this in the chart of account would require many more accounts to show insurance, building maintenance, instructional and support services for K-3 separately. Instead, the district could map the insurance and building maintenance expenditures in the chart of account to be allocated to a database cell based on square footage utilized by that program. Support services could be allocated based on proportionate share of pupils in K-3. Instructional costs could be mapped to a specific cell without need for allocation. The district could then analyze the data and prepare reports from the database. This relational database would not effect the accounting records or other reporting in any way.

## Notes from the IRS

Form SS-4, Application for Employer Identification Number, has been recently updated. A school would use this if it were reorganizing. It might also provide blank forms for booster clubs or foundations which wished to be independent of the school. (Announcement 95-71)

The Accountable Plan for Employee Business Expense Reimbursement now requires receipts for expenses which are in excess of \$75 (up from \$25) (Notice 95-50). Please note that this is one of the requirements for the reimbursement to be excluded from wages on the employee's W-2 for IRS purposes and should not cause a district to change its receipt requirements in order for the employee to receive the reimbursement.

The IRS will be testing the use of signature and authentication alternatives in keeping with technological advances and electronic data transmittal.

## REPORTING CASH AND INVESTMENTS ON YOUR BALANCE SHEET

- Sue Battani

In reporting cash and/or investments, it is important to distinguish between investments for statutory compliance purposes (i.e.: compliance with Chapter 12B and 12C of the Code of Iowa), and investments for financial (GAAP) reporting purposes.

For example, Chapter 12B 10 of the Code of Iowa includes certificates of deposit as an allowable "investment" for public funds. However, certificates of deposit would not be considered to be an "investment" under standards promulgated by the Governmental Accounting Standards Board (GASB).

Specifically, GASB Statement 3 and the related Implementation Guide provide the following guidance on investments: "An investment can be defined as securities and other assets acquired primarily for the purpose of obtaining income or profit... Governments often earn interest on "deposits" with financial institutions. However, interest-bearing deposits should be treated as deposits, not as investments, in applying Statement 3." These interest-bearing deposits include demand, savings, and time accounts, including negotiable order of withdrawal (NOW) accounts, money market accounts, and non-negotiable certificates of deposits (CDs).

Therefore, for financial reporting purposes deposits that are commonly referred to as investments are classified as cash on a balance sheet. These include checking accounts, demand accounts, savings accounts, time accounts, NOW accounts, money market accounts and non-negotiable certificates of deposit (CDs). Investments on a balance sheet would include only those items meeting the GASB State 3 criteria for investments. Typical investments for school districts would include, but are not limited to, U.S. Treasury bills, notes and bonds and amounts in the Iowa Schools Joint Investment Trust.

## CASH CODES

Many districts want to keep their CDs, money market accounts, NOW accounts, etc. separate from their cash in bank checking account. A district could do this by using Cash account codes 106 through 109 for these cash accounts. Even though still "cash" for reporting purposes, Uniform Financial Accounting allows up to 9 separate cash accounts as line items on the accounting records.

## Phase III Not Deferred Revenue

GASB Cod. Section G60 109 states that "grants, entitlements, or shared revenues recorded in governmental funds should be recognized as revenue in the accounting period when they become susceptible to accrual, that is both measurable and available. In applying this definition, legal and contractual requirements should be carefully reviewed for guidance. Some such resources, usually entitlements or shared revenues, are restricted more in form than in substance. Only a failure on the part of the recipient to comply with prescribed regulations will cause a forfeiture of the resources. Such resources should be recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met."

## CODING CLARIFICATION

The federal reporting instructions include some clarifications for specific coding of some expenditures. These have been questions from districts.

--Do not include teaching school nurses or librarians under the Instruction Function 1000. Instead include them in support services as nurses and librarians.

--Graduation expenditures are to be included in School Administration Function 2400 (office of the principal).

--Expenditures for Operations and Maintenance include (a) the costs of care and upkeep of equipment (except for instructional equipment which is reported in function 1000) and (b) the costs of vehicle operations and maintenance services (except for student transportation vehicles which are reported in function 2700, and vehicles used in instructional programs such as driver's education which are reported in function 1000).

## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

**Iowa Code:** School districts and area education agencies are required to conform to generally accepted accounting principles commencing with the school year beginning July 1, 1996.

So, what does it mean to be on GAAP and what does it mean to be on "non-GAAP"?

I have always wondered what is really the difference between butterscotch topping and caramel topping. Some brands carry butterscotch, others carry caramel. But I have never been sure what was the difference. Last week, I found a brand which had both butterscotch topping and caramel topping. The caramel topping was darker in color and cost 7 cents more. I decided to buy one of each just to find out what was the difference in the flavors.

I bought vanilla ice cream and went home for my own 'taste test.' I took two scoops of ice cream. I put butterscotch topping on one scoop and caramel topping on the other. I went back and forth between the flavors. I even tried a 'blind taste test' on my family.

Do you know what is the difference between butterscotch topping and caramel topping? Caramel is a darker color and costs 7 cents more!!!!!!

By now, you are probably wondering **what does that have to do with GAAP???** Well... Do you know what is the difference between being what we call a "GAAP district" and being what we call a "non-GAAP district"? When the district prepares official financial statements such as the CAR, the GAAP district posts a dozen or so journal entries to accrue revenues and expenditures; the non-GAAP district does not. And... that's about all the differences. The GAAP district and the non-GAAP district each uses a different basis of accounting. Basis of accounting governs the TIMING with which the accounting system recognized transactions.

**Myth:** GAAP is accrual/modified accrual accounting

**Fact:** GAAP is a codified body of basic accounting and reporting principles which are generally accepted as fundamental standards by the financial community and are recognized as essential to effective management control and reporting. One of those principles relates to the basis of accounting. Accrual/modified accrual is the generally accepted basis of accounting for governmental entities to use in measuring financial position and operating results

**Myth:** GAAP is something "new" which doesn't begin until July 1, 1996

**Fact:** The only principle in GAAP which is actually a "new" requirement for LEAs is the principle of using accrual/modified accrual as the basis of reporting revenues and expenditures. All other principles for handling financial transactions in accordance with GAAP have always applied to Iowa schools. Iowa LEAs and AEAs have been required to follow Uniform Financial Accounting for at least 70 years. UFA is written based on, and requires, compliance with GAAP in the handling of all financial transactions (before GAAP, UFA required compliance with acceptable accounting standards of the time period). So any district which has been correctly following UFA, the CAR instructions, and Iowa Code has already been conforming to GAAP except for one principle--basis of accounting.

In recent years, financial transactions have become so complicated, that a basic manual like UFA cannot give specific enough information on handling all possible transactions. UFA is updated only once a decade so may not remain as current as users need. Having the Iowa Code itself specify GAAP, helps districts and auditors alike to know what authoritative reference to use for guidance in accounting for and reporting financial transactions.

**Myth:** Beginning July 1, 1996, districts follow GAAP instead of Iowa Code for financial transactions.

**Fact:** If there is a conflict, the Iowa Code prevails for handling that transaction. However, a team has reviewed the laws which apply to schools to remove any known conflicts between Iowa Code and GAAP.

This is not to say that Iowa Code will not have a requirement that GAAP does not have. For example, GAAP permits, but discourages, net reporting of some financial transactions. Iowa Code, however, requires budgeting and reporting of ALL revenues and ALL expenditures--it does not grant any authority for a district to report transactions net rather than gross.

**Myth:** The auditor will prepare the GAAP financial statements for the district.

**Fact:** District personnel will apply GAAP principles in accounting for financial transactions in day-to-day operations. The district personnel will prepare adjusting journal entries to accrue revenues and expenditure and will prepare financial statements in accordance with GAAP. Some districts may choose to accrue revenues and expenditures as they go all year long. Some district may choose to take advantage of the capacities of their accounting software to accrue some, but not all, transactions. For example, accruing expenditures through the accounts payable software module but not salaries or

revenues; then preparing adjusting journal entries to prepare financial statements in accordance with GAAP. Other districts may choose to handle all accruing through adjusting journal entries to prepare financial statements in accordance with GAAP.

Auditors will review the annual financial statements prepared by the district personnel. The preparation of the financial statements by district personnel and the review by the independent auditor are separate, independent activities.

Even so, the auditor may make substantial suggestions and corrections for the first several years. The auditors will prepare GAAP balance sheets for FY96 to give each district accrual beginning figures for FY97.

**Myth:** Districts must report and budget on the same basis of accounting.

**Fact:** The legal requirement to be in compliance with GAAP does not apply to budgeting which is governed by a different chapter of the Iowa Code. The SBRC recommended that the local school district decide whether it would budget on the GAAP basis or the non-GAAP basis. The local district should make this choice in such a manner that it does not result in exceeding its maximum budget authority. Once a local district selects budgeting on GAAP, it may not return to a non-GAAP basis for budgeting.

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